



MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2012

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

General Information

Mayoral committee

Mayor	MUTAVHATSINDI FD
Municipal Manager	IP MUTSHINYALI
Speaker	L.B MOGALE
Chief Whip	LUDERE R
Councillors	KENNEALY A UNDERWOOD J P MASHIMBYE P F SINYOSI S M RATSHIKUNI D THANDAVHATHU N R MACHETTE MS MADAVHU FF MAMOROBELA TP JOOMA ZA NEMAFHOHONI MG MMBADI TA MATODZI AM MUNYAI NS MAGADA MR MALANGE TM MALIMA ME NDWAMMBI MT MAZIBUKO MP MATHAVHA HF MATHOMA MP MADZHIGA FN TSHILAMBYANA MS MAKHUVHA VS CHILILO NF DAVHANA ND MAMAFHA TC MALANGE R BALIBALI N P KUTAMA N MAMATSIARI MS GABARA M SHANDUKANI MJ MAPHAHLA AZ MUKHARI MF MAHLADISA SV MAMAFHA TJ RASIMPHI MP HLUNGWANI KA MTHOMBENI SZ LUDERE EH AHMED MO RAMUDZULI SD
	MATUMBA MT MUTELE TM RATSHIVHOMBELA MQ MAHANI MG BALOYI SR HLABIOA MM NDZOVELA NG LUDUVHUNGU VS NELUVHOLA AT MASUKA S NETSHIVHULANA TP MADZIVHANDILA MR SAKHWARI I SELEPE MR MULOVHEDZI MD MUTAVHATSINDI FD NGOBENI NE RIKHOTSO FJ HLONGWANI FB MAPHALA OS MAKHUBELA RT MATUMBA NJ BALOYI J MACHOVANI RG MUKHAHA A J DU PLOOY A MBOYI MD TSHAVHUYO TG REKHOTSO SM NETSIANDA MW RAMABULANA VC NESENGANI TP MASHAMBA NTL MASHAU TRV LOWANE LB MAJOSI HM MOLEMA SA BUNGENI M S MUKHARI S T MASAKONA M C LERULE MM MATHALISE LM

Grading of local authority Grade 4

Chief Finance Officer MP Makhubela

Registered office Corner Krogh and Erasmus Street
Makhado
0920

MAKHADO LOCAL MUNICIPALITY

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Authority's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the municipality to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the accounting officer endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the management is primarily responsible for the financial affairs of the municipality, they are supported by the Independent consultants where relevant.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 46, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:



I.P. Mutshinyali
Municipal Manager

MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note	2012	2011
Assets			
Current Assets			
Inventories	2	3,558,629	4,551,282
Current portion of receivables	3	-	31,462
Receivables from exchange transactions	4	46,780,968	26,009,285
Other receivables from non-exchange transactions	5	71,519,611	86,462,094
Prepayments	6	66,171	-
Cash and cash equivalents	7	15,198	35,890
		121,940,577	117,090,013
Non-Current Assets			
Investment property	8	52,491,463	604,753
Property plant and equipment	9	1,845,768,070	1,604,607,856
Intangible assets	10	20,907	27,887
		1,898,280,440	1,605,240,496
Total Assets		2,020,221,017	1,722,330,509
Liabilities			
Current Liabilities			
Borrowings	11	1,807,413	1,615,355
Finance lease liability	12	5,398,224	3,463,437
Payables from exchange transactions	13	163,626,389	126,406,314
VAT payable	14	5,914,871	1,838,172
Current portion of unspent conditional grants and receipts	15	36,130,084	24,379,638
Provisions	18	11,247,680	15,123,361
Consumer deposits	16	10,087,699	8,986,408
Bank overdraft	7	6,218,099	2,492,174
		240,430,459	184,304,859
Non-Current Liabilities			
Borrowings	11	10,245,861	13,062,819
Finance lease liability	12	28,748,206	58,748,483
Defined benefit obligation	17	12,231,850	11,704,617
Provisions	18	5,423,952	4,930,865
		56,649,869	88,446,784
Total Liabilities		297,080,328	272,751,643
Net Assets		1,723,140,689	1,449,578,866
Net Assets			
Reserves			
Revaluation reserve	39	1,100,395,368	655,325,337
Accumulated surplus		622,745,321	794,253,529
Total Net Assets		1,723,140,689	1,449,578,866

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Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue			
Property rates	23	34,836,428	32,108,479
Service charges	24	222,333,139	186,682,562
Rental of facilities and equipment		357,495	309,026
Fines		1,703,645	1,684,617
Licences and permits		11,648,818	11,492,586
Government grants & subsidies	25	254,267,863	246,447,932
Other income		36,972,374	54,463,747
Interest on outstanding debtors		16,694,669	10,213,885
Interest received earned - external investments	21	1,035,379	2,888,388
Total Revenue		579,849,815	546,291,222
Expenditure			
Personnel	27	(171,883,712)	(169,190,238)
Remuneration of councillors	28	(16,799,647)	(16,137,982)
Depreciation and amortisation	30	(122,700,052)	(93,654,834)
Impairment loss		(54,814,951)	-
Finance costs	22	(7,531,535)	(7,572,386)
Provision for doubtful debts	29	(46,500,702)	(108,530,043)
Bulk purchases	32	(141,762,394)	(109,645,603)
General Expenses	26	(180,868,981)	(105,677,374)
Total Expenditure		(742,861,974)	(610,408,460)
Deficit for the year		(163,012,159)	(64,117,238)

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Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated Surplus	Total net assets
Balance at 01 July 2010	265,198,278	778,540,944	1,043,739,222
Changes in net assets	-	(64,117,238)	(64,117,238)
Deficit for the year	469,954,745	-	469,954,745
Revaluation reserve	(79,829,823)	79,829,823	-
Transfer from the revaluation reserve to accumulated surplus	390,124,922	15,712,585	405,837,507
Total changes	655,323,200	785,757,480	1,441,080,680
Balance at 01 July 2011			
Changes in net assets	-	(163,012,159)	(163,012,159)
Deficit for the year	445,072,168	(163,012,159)	282,060,009
Total changes	1,100,395,368	622,745,321	1,723,140,689
Balance at 30 June 2012			

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Annual Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures in Rand	Note	2012	2011
Cash flows from operating activities			
Receipts			
Property rates		34,836,428	32,108,480
Sale of goods and services		231,140,375	220,195,799
Grants		266,018,314	235,129,210
Interest income		1,035,379	2,888,388
Other receipts		53,667,045	64,677,634
		<u>586,697,541</u>	<u>554,999,511</u>
Payments			
Employee costs		(171,351,295)	(166,352,747)
Remuneration of council		(16,799,647)	(16,137,982)
Finance costs		(2,333,442)	(7,572,379)
Payment to suppliers		(141,258,130)	(218,108,087)
		<u>(331,742,514)</u>	<u>(408,171,195)</u>
Net cash flows from operating activities	35	<u>254,955,027</u>	<u>146,828,316</u>
Cash flows from investing activities			
Purchase of property plant and equipment	9	(70,385,240)	(166,675,182)
Assets written off through disposal	9	45,056,406	-
Net cash flows from investing activities		<u>(25,328,834)</u>	<u>(166,675,182)</u>
Cash flows from financing activities			
Repayment of borrowings		(2,624,900)	359,734
Movement in current portion of receivables		31,462	-
Finance lease liability (asset)		(33,263,583)	1,867,536
Increase in consumer deposits	41	1,101,291	1,040,885
Other cash flow item		(198,617,080)	(10,324,396)
Net cash flows from financing activities		<u>(233,372,810)</u>	<u>(7,056,241)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3,746,617)</u>	<u>(26,903,107)</u>
Cash and cash equivalents at the beginning of the year		(2,456,284)	24,446,823
Cash and cash equivalents at the end of the year	7	<u>(6,202,901)</u>	<u>(2,456,284)</u>

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition assets are tested on annual basis for impairment purposes. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

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Accounting Policies

1.2 Transfer of functions between entities under common control (continued)

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Current year service costs, interest expense / income and actuarial gains and losses are recognised in the statement of financial performance.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

A provision for doubtful debts impairment movement is recognised in surplus and deficit, when there is objective evidence that it is impaired. The provision for impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. Doubtful debts are written off through the reduction of the provision for doubtful debts impairment account.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Accounting Policies

1.3 Investment property (continued)

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

1.4 Property plant and equipment

Property plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property plant and equipment is initially measured at cost.

The cost of an item of property plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Accounting Policies

1.4 Property plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Other vehicles	5-10 years
Furniture and fixtures	7-14 years
Specilised vehicles	10 years
Office equipment	7-14 years
Computer equipment	3-6 years
Finance lease assets	
• Office equipment	7-14 years
• Other assets	5 years
Infrastructure	
• Roads and Paving	30 years
• Pedestrian Malls	30 years
• Electricity	30 years
• Water	20 years
• Swerage	30 years
Community	
• Buildings	30 years
• Recreational Facilities	30 years
• Security	5 years
• Halls	
• Libraries	20 years
• Parks and gardens	15 years
• Other assets	7-14 years
Watercraft	15 years
Bins and containers	5 years
Specialised plant and equipment	10 years
Other items of plant and equipment	5 years
Landfill sites	5 years
Emergency equipment	10 years
Computer software	3-5 years
Heritage assets	
• Buildings	30 years
• Painting and airfacts	7 years

The residual value, and the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.4 Property plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.6 Financial instruments

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Impairment of financial assets

The municipality assesses at each statement of financial position (increase/decrease) date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position (increase/decrease) at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position (increase/decrease) as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Prepayments

Any expenses incurred for payment of any obligation to the extent that the payment exceeds the amount actually due as at the end of the financial year shall be recognised as asset (prepaid expenses) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

Accounting Policies

1.10 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position (increase/decrease) represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.12 Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Accounting Policies

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest earned on outstanding debtors is recognised on a time proportion basis. Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Changes to estimates made where more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier. When government remit grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote, and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure, irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Revaluation reserve

The surplus arising from the revaluation of property plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Accounting Policies

1.26 GRAP 26: Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Carrying amount is the amount at which an asset is recognised in the statement of financial position (increase/decrease) after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

1.27 GRAP 21 : Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When carrying amount of non-cash generating asset exceeds its recoverable service cost, it is impaired..

1.28 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 21 Impairment of non-cash-generating assets	o
GRAP 23 Revenue from non-exchange transactions (Taxes and transfers)	o
GRAP 24 Presentation of budget information in financial statements	o
GRAP 25 Employee benefits	o
GRAP 26 Impairment of cash-generating assets	o
GRAP 103 Heritage assets	o
GRAP 104 Financial instruments	o

1.30 Contingencies

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note no 41.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

2012	2011
3,558,629	4,551,282
Inventories	Inventories

3. Current portion of receivables

31,462	31,462
At beginning of the year	At beginning of the year
Repayments in the current year	Repayments in the current year
-	(31,462)
31,462	-

Senior staff were entitled to car loans up to 30 June 2005 which attracted interest at 8% per annum and these loans were repaid in full in the current year.

4. Receivables from exchange transactions

Trade receivables from exchange transactions

46,780,968	26,009,285
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Trade receivables

as at 30 June 2012

Service debtors

Rates

Electricity

Water

Sewerage

Refuse

Other services

Gross Balances

Provision for Doubtful

Net Balance

Debits

(34,653,407)

(30,903,132)

-

(14,002,399)

(63,809,197)

(128,898,286)

(143,368,135)

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There is no material difference between the fair value of trade and other receivables and their book value.

Reconciliation of doubtful debt provision

128,898,256	18,395,805
Opening balance	Opening balance
Debits written off against provision	Debits written off against provision
Contribution to the provision	Contribution to the provision
Reversal of provision for water and sewer	Reversal of provision for water and sewer
(23,935,796)	1,972,409
143,368,136	128,898,256

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
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5. Other receivables from non-exchange transactions

Other debtors	18,743,869	19,205,909
Vhembe District Water Transaction	52,775,742	67,256,185
	<u>71,519,611</u>	<u>86,462,094</u>

There is no material difference between the fair value of other receivables from non-exchange transactions and their book value.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
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6. Prepayments

The prepayments are paid for DE-SA loan, the loan is unsecured, bears interest at 9.86% and is repayable on 3rd March 2018.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Call account	1,998	34,190
cash on hand	13,200	1,700
Bank overdraft	(6,218,099)	(2,492,174)
	(6,202,901)	(2,456,284)
Current assets	15,198	35,890
Current liabilities	(6,218,099)	(2,492,174)
	(6,202,901)	(2,456,284)

There is no material difference between the fair value of cash and cash equivalents and their book value.

The municipality had the following bank accounts

Account number / description	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK - CURRENT	-	128,733	128,296	-	128,733	128,296
ABSA ACCOUNT - 406-378-2281	-	-	-	-	-	-
ABSA BANK - CURRENT	-	4,828,095	-	-	(2,478,225)	-
ABSA ACCOUNT - 1000-000-147	-	-	-	-	-	-
ABSA BANK - CALL ACCOUNT	-	34,190	-	-	35,891	38,880,956
- 906-905-2425	-	-	-	-	-	-
FNB BANK - CURRENT	766,434	-	-	(6,224,568)	-	-
FNB ACCOUNT - 623-0832-9988	-	-	-	-	-	-
FNB BANK - INVESTMENT	1,000	-	-	1,998	-	-
ACCOUNT - 623-0833-0779	767,434	4,991,018	128,296	(6,222,570)	(2,313,601)	39,009,252
Total	767,434	4,991,018	128,296	(6,222,570)	(2,313,601)	39,009,252

8. Investment property

	2012	2011
Cost / Accumulated depreciation and impairment	52,491,463	-
Carrying value	52,491,463	52,491,463
Cost / Accumulated depreciation and impairment	-	754,718
Carrying value	-	(149,965)
	52,491,463	604,753

Reconciliation of investment property - 2012

Investment property	Opening balance	Revaluations	Total
	604,753	51,886,710	52,491,463

Reconciliation of investment property - 2011

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
8. Investment property (continued)		
Investment property		
Opening balance	754,718	604,753
Depreciation	(149,965)	
Total		

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

2012	2011
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9. Property plant and equipment

	2012	2011
Cost / Accumulated depreciation and impairment	Carrying value	Cost / Accumulated depreciation and impairment
Buildings	324,744,101	183,743,277
Infrastructure	(12,580,218)	312,163,883
Community	(308,882,053)	1,456,427,753
Other assets	(9,595,507)	25,491,880
Finance lease assets	(20,958,193)	26,664,305
Total	37,302,265	25,020,249
	(12,282,016)	66,961,639
	47,622,498	44,197,312
	(20,958,193)	(20,622,104)
	35,087,387	(10,215,455)
	(9,595,507)	(306,192,899)
	(308,882,053)	1,288,722,872
	1,765,309,806	175,925,865
	(12,580,218)	(7,817,412)
	312,163,883	183,743,277
	1,456,427,753	1,594,915,771
	25,491,880	75,383,092
	26,664,305	44,197,312
	(20,958,193)	(20,622,104)
	37,302,265	(15,745,365)
	(12,282,016)	51,216,274
	(364,297,987)	(360,593,235)
	1,845,768,070	1,965,201,091
	2,210,066,057	1,604,607,856

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

9. Property plant and equipment (continued)

Reconciliation of property plant and equipment - 2012

	Opening balance	Additions	Additions under construction	Disposals	Revaluations	Depreciation	Impairment loss	Total
Land and Buildings	175,925,865	567,500	184,620	-	139,074,186	(2,074,822)	(1,513,466)	312,163,883
Infrastructure	1,288,722,872	23,905,509	38,085,050	(21,826,082)	283,199,947	(107,859,102)	(47,800,441)	1,456,427,753
Community	65,167,637	2,344,637	3,129,264	-	(38,831,451)	(1,184,103)	(5,134,104)	25,491,880
Other assets	23,575,208	2,168,660	-	(2,963,084)	9,707,126	(5,456,669)	(366,936)	26,664,305
Finance lease assets	51,216,274	-	-	(20,267,240)	-	(5,928,785)	-	25,020,249
	1,604,607,856	28,986,306	41,398,934	(45,056,406)	393,149,808	(122,503,481)	(54,814,947)	1,845,768,070

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

9. Property plant and equipment (continued)

Reconciliation of property plant and equipment - 2011

	Opening balance	Additions	Additions under construction	Revaluations	Depreciation	Total
Land and Buildings	171,474,925	7,419,523	4,848,829	-	(7,817,412)	175,925,865
Infrastructure	757,968,301	97,182,278	44,658,597	469,954,745	(81,041,049)	1,288,722,872
Community	63,137,267	2,186,880	18,414	-	(174,924)	65,167,637
Other assets	18,236,487	9,686,650	-	-	(4,347,929)	23,575,208
Finance lease assets	57,156,365	674,011	-	-	(6,614,102)	51,216,274
	1,067,973,345	117,149,342	49,525,840	469,954,745	(99,995,416)	1,604,607,856

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2012		2011			
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	
Intangible assets	41,849	(20,942)	20,907	41,849	(13,962)	27,887

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

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10. Intangible assets (continued)

Reconciliation of intangible assets - 2012

Intangible assets	
Opening balance	27,887
Amortisation	(6,980)
Total	20,907

Reconciliation of intangible assets - 2011

Intangible assets	
Opening balance	41,849
Amortisation	(13,962)
Total	27,887

11. Borrowings

Annuity loans

INCA

The loan is unsecured, bears interest at 11.47% and is repayable on 30 June 2014.

3,828,081

DBSA loan 1

The loan is unsecured, bears interest at 9.86% and is repayable on 31 March 2018.

6,192,434

DBSA loan 2

The loan is unsecured, bears interest at 5% and is repayable on 31 March 2018.

2,032,759

12,053,274

14,678,174

Non-current liabilities

At amortised cost

10,245,861

13,062,819

Current liabilities

At amortised cost

1,807,413

1,615,355

12,053,274

14,678,174

There is no material difference between the fair value of the borrowings and their book value.

Refer to Appendix A for more detail on borrowings.

12. Finance lease liability

Minimum lease payments due

- within one year

- in second to fifth year inclusive

58,748,206

28,748,206

3,463,437

58,748,484

62,211,921

Present value of minimum lease payments

Non-current liabilities

Current liabilities

58,748,206

5,398,224

3,463,437

28,748,483

62,211,920

34,146,430

62,211,920

The average lease term is 10 years and the average effective borrowing rate is 9.50%. Interest rates are fixed at the contract date. Some leases have fixed terms and escalate between 6% and 10% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

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2012 2011

13. Payables from exchange transactions

Trade creditors	189,676	-
Vhembe District Municipality (Water collections)	72,912,530	56,119,138
Accruals	50,720,974	43,301,313
Retentions	7,149,501	5,549,253
Debtors with credit balances	9,068,034	5,544,692
Other creditors	3,619,232	6,442,442
Water transactions suspense account (Water billings)	20,156,118	9,259,800
	163,626,389	126,406,314

There is no material difference between the fair value of payables from exchange transactions and their book value.

14. VAT payable

VAT payable	5,914,871	1,838,172
-------------	-----------	-----------

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

15. Current portion of unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	27,414,583	13,977,364
MIG	2,610,551	2,610,474
INEP	2,567,495	2,567,495
Dwat payments	1,297,297	2,387,698
VDM electrification grant	993,454	1,573,179
Finance management grant	533,976	543,979
Municipal systems improvement grant	414,495	421,216
PHP grant	207,369	56,418
Department of Sports, Arts and Culture grant	33,801	33,801
VDM refuse removal truck	645	645
Drought relief grant		
VDM graveyards grant		

Movement during the year

Balance at the beginning of the year	24,379,639	35,698,352
Movement	11,750,445	(11,318,714)
	36,130,084	24,379,638

See note 22 for reconciliation of grants and receipt. These amounts are invested in a ring-fenced investment until utilised.

16. Consumer deposits

Consumer deposits

Electricity	10,087,699	8,986,408
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Guarantees held in lieu of consumer deposits.

Notes to the Annual Financial Statements

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2012	2011
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17. Employee benefit obligations

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	11,704,626	10,980,175
Current services cost	1,531,234	1,344,704
Interest cost	828,184	838,498
Actuarial (Gain)/Loss	-	(21,422)
Expected Employer Benefit	(1,832,185)	(1,437,329)
	12,231,859	11,704,626

18. Provisions

Reconciliation of provisions - 2012

Opening Balance	4,930,865	4,930,865
Rehabilitation of landfill site	14,652,270	(3,716,504)
Provision for leave	471,091	(159,177)
Provision for bonuses Section 57 Managers		311,914
	20,054,226	(3,382,594)
	16,671,632	16,671,632

Reconciliation of provisions - 2011

Opening Balance	4,592,277	338,588	4,930,865
Rehabilitation of landfill site	12,923,025	1,729,245	14,652,270
Provision for leave	471,091	-	471,091
Provision for leave			
	17,986,393	2,067,833	20,054,226

Non-current liabilities	5,423,952	4,930,865
Current liabilities	11,247,680	15,123,361
	16,671,632	20,054,226

Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of future obligation, discounted at prime interest rate of 8.5% over an estimated useful life of 1 year. Rehabilitation cost is assumed to increase at inflation rate of 7.10%. The payment of expenditures relating to rehabilitation is expected to occur after the 30th June 2013.

19. Revenue

Property rates	34,836,428	32,108,479
Service charges	222,333,139	186,682,562
Rental of facilities & equipment	357,496	309,026
Fines	1,703,646	1,684,617
Licences and permits	11,648,818	11,492,586
Government grants & subsidies	254,267,868	246,447,932
	525,147,393	478,725,202

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

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19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services

are as follows:

Service charges
Rental of facilities & equipment
Licences and permits

222,333,139	86,682,562
357,495	309,026
11,648,818	11,492,586
234,339,452	198,484,174

The amount included in revenue arising from non-exchange transactions is as follows:

Non taxable revenue
Property rates
Fines
Non taxable revenue
Government grants

34,836,428	32,108,479
1,703,645	1,684,617
254,267,868	246,447,932
290,807,941	280,241,028

20. Other income

Other income
Interest on outstanding debtors

36,972,374	54,463,747
16,694,669	10,213,885
53,667,043	64,677,632

21. Investment revenue

Interest revenue
Bank

1,035,379	2,888,388
-----------	-----------

22. Finance costs

Finance lease
Borrowing
Interest paid on employee benefits

5,198,093	6,035,114
1,505,258	1,537,272
828,184	-
7,531,535	7,572,386

23. Property rates

Rates received

Residential
Commercial
State

23,672,812	22,102,050
8,957,004	8,132,710
2,206,612	1,873,719
34,836,428	32,108,479

Valuations

Residential
Commercial
State
Municipal

4,461,163,901	4,409,085,698
1,228,860,108	1,131,823,386
1,929,719,700	1,933,044,700
329,748,200	327,096,200
7,949,491,909	7,801,049,984

The last valuation came into effect on the 01 July 2008. A general rate of 0.0055 (2011-0.0053) is applied to property valuation (Market Value) to determine assessment rates. Rebates are granted to residential and state property owners. Rates are levied on the monthly basis on property owners.

MAKHADO LOCAL MUNICIPALITY Annual Financial Statements for the year ended 30 June 2012

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	2012	2011
24. Service charges		
Sale of electricity	214,786,478	78,195,000
Sale of water	-	1,201,348
Sewerage and sanitation charges	7,546,661	167,094
Refuse removal	-	7,119,120
	222,333,139	186,682,562

25. Government grants and subsidies

Equitable share
Other Government Grants and Subsidies
Municipal Infrastructure Grant (MIG)
Grant received from the district municipality

203,577,000	185,483,067
7,226,774	16,187,807
42,124,781	44,777,058
1,339,313	-
254,267,868	246,447,932

26. General expenses

Advertising
Auditors remuneration
Bank charges
Water transactions write off
Legal fees
Stocks and material
Transport claims
Insurance
Computer expenses
Office rentals
Skills development levies
Fuel and oil
Postage
Printing and stationery
Repairs and maintenance
Licence fees-vehicles
Security costs
Membership fees
Telephone cost
Training
Travel and subsistence
Loss on disposal of assets
Uniforms and overalls
Indigent policy
Subscription & publication
Departmental consumption
Non-asset items
Dumping site
Other expenses

325,051	231,048
5,469,199	3,522,093
894,423	923,027
29,784,294	665,736
8,194,442	3,268,263
1,845,761	1,942,898
24,527	84,730
1,960,957	1,282,018
29,264	-
139,975	-
1,459,521	1,456,082
7,532,493	7,690,413
39,082	559,761
2,819,772	2,735,274
19,978,636	25,721,367
281,422	273,031
12,137,193	8,927,636
563,796	1,304,222
2,374,717	1,799,884
1,575,323	2,597,855
2,808,333	1,781,654
24,790,866	-
667,871	163,117
6,053,702	5,811,636
3,347,971	2,933,700
533,932	694,531
24,636,540	8,214,849
493,086	338,588
20,106,832	20,753,961
180,868,981	105,677,374

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

2012 2011

27. Employee related costs

103,372,690	91,065,054
Employee related costs- Salaries and Wages	9,590,178
Performance and other bonuses	9,220,466
Employee related costs- Medical aid	7,752,931
UfF	1,024,278
Bargaining Council Levies	41,347
Other employee related costs	3,726,613
Post-employment benefits - Pension - Defined contribution plan	24,871,947
Travel, motor car, accommodation, subsistence and other allowances	7,036,680
Overtime payments	15,180,374
Long-service awards	1,531,234
Housing benefits and allowances	218,054
Standby allowance	1,183,216
Group life insurance	391,797
171,883,712	169,190,238

Remuneration of municipal manager

611,268	487,333
Annual Remuneration	62,040
Contributions to UfF, Medical and Pension Funds	324,951
Travel, motor car, accommodation, subsistence and other allowance	75,327
874,324	1,111,378

Remuneration of chief finance officer

471,314	337,144
Annual Remuneration	70,972
Contributions to UfF, Medical and Pension Funds	97,725
Travel, motor car, accommodation, subsistence and other allowances	230,335
Other-Backpay	100,253
671,037	799,374

Remuneration of director technical services

441,748	473,996
Annual Remuneration	96,258
Contributions to UfF, Medical and Pension Funds	83,576
Travel, motor car, accommodation, subsistence and other allowances	230,335
832,508	755,659

Remuneration of director corporate services

434,074	465,761
Annual Remuneration	86,925
Contributions to UfF, Medical and Pension Funds	78,907
Travel, motor car, accommodation, subsistence and other allowances	237,052
789,738	805,912

Remuneration of director planning and development

434,074	465,761
Annual Remuneration	59,718
Contributions to UfF, Medical and Pension Funds	53,925
Travel, motor car, accommodation, subsistence and other allowances	254,248
791,178	742,247

MAKHADO LOCAL MUNICIPALITY

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27. Employee related costs (continued)

Remuneration of director community services

Annual Remuneration	465,761	916,357
Performance Bonuses	84,120	762,805
Contributions to UIF, Medical and Pension Funds	59,718	
Travel, motor car, accommodation, subsistence and other allowances	306,758	
	274,806	

28. Remuneration of councillors

Mayor	408,292	16,799,647
Speaker	516,556	
Councillors	15,242,690	16,137,982

In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor has the use of a Council owned vehicle for official duties.

29. Provision for doubtful debts

Provision for doubtful debts	46,500,702	108,530,043
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30. Depreciation and amortisation

Property plant and equipment	122,700,052	93,654,834
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Property, plant and equipment amounting to R 54 814,951.00 was impairment and is separately disclosed on the face of the statement of comprehensive income.

31. Auditor's remuneration

Fees	5,469,199	3,522,093
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32. Bulk purchases

Electricity	141,762,394	109,645,603
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Included in the electricity bulk purchases is the 11% which relate to distribution losses. Makhado Municipality gets billed by Eskom on monthly basis for electricity used/or given to Makhado based on readings. Therefore the amount paid to/billed by Eskom includes the electricity losses and the losses were R 24,902,348 (2011: R15 352 617).

33. Fruitless and wasteful expenditure

Opening balance	930,235	34,735
Fruitless expenditure current year	-	895,500
Other: Lease administration fee	1,100,631	930,235

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2012	2011
821,257	821,257
-	-
821,257	821,257

34. Irregular expenditure

Opening balance
Add: Irregular Expenditure - current year

Unauthorised expenditure

Unauthorised expenditure	24,702,467
Current year	33,169,661
	57,872,128

Details of irregular expenditure – current year

Unspent conditional grants as per DORA
allocations not cashbacked.
Disciplinary steps taken/criminal proceedings
Municipal Infrastructure gant
Integrated National Electrification
Programme(INEP)
Finance Management Grant(FMG)
Municipal System Improvement Grant(MSIG)

27,414,583
2,610,551
2,610,551
2,610,551
533,976
33,169,661

35. Cash generated from operations

Deficit	(163,012,159)	(64,117,238)
Adjustments for:		
Depreciation and amortisation	122,700,052	93,654,834
Finance costs - Finance lease	7,531,535	7,572,386
Impairment loss	54,814,951	-
Provision for doubtful debts	46,500,702	108,530,043
Movements in retirement benefit assets and liabilities	527,233	-
Movements in provisions	(3,382,594)	2,837,491
Other non-cash items	170,936,842	69,343,164
Other income	16,694,669	10,213,887
Changes in working capital:		
Inventories	992,653	(1,896,220)
Receivables from exchange transactions	(20,771,687)	67,696,127
Other receivables from non-exchange transactions	14,942,483	(49,676,580)
Consumer debtors	(46,500,702)	(108,530,043)
Prepayments	(66,171)	-
Payables from exchange transactions	37,220,075	29,358,621
VAT	4,076,699	(6,839,443)
Current portion of unspent conditional grants and receipts	11,750,446	(11,318,713)
	254,955,027	146,828,316

MAKHADO LOCAL MUNICIPALITY

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36. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	520,996	-
Current year subscriptions	1,628,296	1,811,261
Amount paid - current year	(1,628,296)	(1,290,265)
Amount paid - previous years	(520,996)	-
	520,996	520,996

Audit fees

Current year audit fee	5,469,199	3,522,093
Amount paid - current year	(5,469,199)	(3,522,093)
	-	-

PAYE and UIF

Current year payroll deductions	25,497,575	23,807,742
Amount paid - current year	(25,497,575)	(23,807,742)
	-	-

Pension and Medical Aid Deductions

Opening balance	46,690,015	44,414,275
Current year payroll deductions and Council Contributions	46,690,015	44,414,275
Amount paid - current year	(46,690,015)	(44,506,708)
	-	92,433

VAT

VAT payable	5,914,871	1,838,172
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MAKHADO LOCAL MUNICIPALITY

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36. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012

Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
1,187	-	1,187
385	30,782	31,167
234	995	1,229
1,761	-	1,761
279	2,981	3,260
335	4,070	4,405
246	3	249
123	-	123
56	1,060	1,116
500	12,910	13,410
3,507	-	3,507
460	16,059	16,519
131	-	131
1,177	-	1,177
470	-	470
1,916	-	1,916
427	5,568	5,995
116	-	116
3,139	8,295	11,434
16,449	82,723	99,172

Underwood JP
Jooma ZA
Nemathohoni MG
Malange TM
Malima ME
Mathavha HF
Mathoma MP
Mamatsiara MS
Mukhari M.F
Mahalisa SV
Ahmed MO
Baioyi SR
Mutavhatsindi FD
Ngobeni NE
Mbonyi MD
Selepe MR
Mbonyi MD
Mashau TR
Kennealy A

30 June 2011

Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
205	-	205
102	-	102
412	134	546
124	-	124
891	-	891
163	1,223	1,386
911	2,462	3,373
794	5,728	6,522
2,674	2,288	4,962
4,431	-	4,431
10,707	11,835	22,542

Gundula A.S
Nemalagani PRJ
Mutavhatsindi FD
Maboko NK
Bopape MB
Kennealy A
Mbonyi MD
Mudau TJ
Makananise MM
Selepe MR

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

30 June 2012

Highest outstanding amount (in days)	Aging
30,782	150
17,882	150
48,664	300

Jooma ZA
Baioyi SR

36. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2011	Highest outstanding amount (in days)	90	180
		6,513	
		10,899	
		17,412	
			180

37. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position (increase/decrease) to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,807,413	2,020,667	-	8,225,193
Trade and other payables	242,013,137	-	-	-
Finance lease liability	2,269,154	-	21,306,289	10,555,757
At 30 June 2011	1,615,355	3,828,080	9,234,739	
Borrowings	208,370,177	-	-	-
Trade and other payables	3,463,437	-	58,748,484	-
Finance lease liability	-	-	-	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Borrowings issued at fixed rates expose the municipality to fair value interest rate.

Development Bank of Southern Africa loans at an average rate of 7.47%.
INCA loan fixed at 11.47%.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2012	2011
Investment in ABSA Bank	-	34,190
Trade and other receivables	-	122,184,610

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2012

2011

36. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	520,996	-
Current year subscriptions	1,628,296	1,811,261
Amount paid - current year	(1,628,296)	(1,290,265)
Amount paid - previous years	(520,996)	-
	<u>-</u>	<u>520,996</u>

Audit fees

Current year audit fee	5,469,199	3,522,093
Amount paid - current year	(5,469,199)	(3,522,093)
	<u>-</u>	<u>-</u>

PAYE and UIF

Current year payroll deductions	25,497,575	23,807,742
Amount paid - current year	(25,497,575)	(23,807,742)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Opening balance	-	92,433
Current year payroll deductions and Council Contributions	46,690,015	44,414,275
Amount paid - current year	(46,690,015)	(44,506,708)
	<u>-</u>	<u>-</u>

VAT

VAT payable	5,914,871	1,838,172
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MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

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36. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Underwood JP	1,187	-	1,187
Jooma ZA	385	30,782	31,167
Nemafhohoni MG	234	995	1,229
Malange TM	1,761	-	1,761
Malima ME	279	2,981	3,260
Mathavha HF	335	4,070	4,405
Mathoma MP	246	3	249
Mamatsiara MS	123	-	123
Mukhari NF	56	1,060	1,116
Mahlalisa SV	500	12,910	13,410
Ahmed MO	3,507	-	3,507
Baloyi SR	460	16,059	16,519
Mutavhatsindi FD	131	-	131
Ngobeni NE	1,177	-	1,177
Mboyi MD	470	-	470
Selepe MR	1,916	-	1,916
Mboyi MD	427	5,568	5,995
Mashau TR	116	-	116
Kennealy A	3,139	8,295	11,434
	16,449	82,723	99,172

30 June 2011

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gundula A.S	205	-	205
Nemallegeni PRJ	102	-	102
Mutavhatsindi FD	412	134	546
Maboho NK	124	-	124
Bopape MB	891	-	891
Kennealy A	163	1,223	1,386
Mboyi MD	911	2,462	3,373
Mudau TJ	794	5,728	6,522
Makananise MM	2,674	2,288	4,962
Selepe MR	4,431	-	4,431
	10,707	11,835	22,542

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2012	Highest outstanding amount	Aging (in days)
Jooma ZA	30,782	150
Baloyi SR	17,882	150
	48,664	300

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

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36. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2011

Makananise MM
Selepe MR

Highest outstanding amount	Aging (in days)
6,513	90
10,899	90
17,412	180

37. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position (increase/decrease) to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,807,413	2,020,667	-	8,225,193
Trade and other payables	242,013,137	-	-	-
Finance lease liability	2,269,154	-	21,306,289	10,555,757
At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,615,355	-	3,828,080	9,234,739
Trade and other payables	208,370,177	-	-	-
Finance lease liability	3,463,437	-	58,748,484	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Borrowings issued at fixed rates expose the municipality to fair value interest rate.

Development Bank of Southern Africa loans at an average rate of 7.47%.
INCA loan fixed at 11.47%

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

Financial assets exposed to credit risk at year end were as follows:

	2012	2011
Financial instrument	-	34,190
Investment in ABSA Bank	-	122,184,610
Trade and other receivables	-	-

Notes to the Annual Financial Statements

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38. Capital commitments

Authorised capital expenditure

Approved and contracted for

- Infrastructure-Roads
- Infrastructure-Electricity Supply
- Other Infrastructure
- Community halls
- Other

14,115,682	16,427,019
28,605,399	8,033,321
-	121,586
2,307,873	-
2,292,531	-
47,321,485	24,581,926

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, and existing cash resource.

39. Revaluation reserve

Opening balance
Revaluation surplus/deficit
Movement for the year

655,325,337	265,200,415
-	469,954,745
445,070,031	(79,829,823)
655,325,368	655,325,337

40. Fair value adjustments

41. Distributions to owners

Balance at beginning of the year
Balance at end of the year

(8,986,408)	(7,945,523)
10,087,599	8,986,408
1,101,291	1,040,885

Distributions to owners are from capital surpluses.

42. Contingencies

Litigations is in process against the municipality relating to a dispute with a defendant in the following cases, should the judgment or the ruling be in favour of the defendant the municipality will have to pay the estimated damages as indicated:

1. Damages for failure to pay for services rendered R 1,320,000
2. Claim regarding loss of life involving the municipal infrastructure R 2,005,000
3. Defendant made to pay more licence fees for his vehicle R 19,318
4. Claim for breach of contract R 6,369,750
5. Wrongful and unlawful detention of defendant by municipal traffic officers R 60,350

43. Related parties

EMPLOYEES COST
Councillors remuneration
Section 57 Managers

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MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

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	2012	2011
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44. Prior period errors

The property plant and equipment were verified and unbundled during 2012 financial year and during the verification process there were assets that were identified and not included in the opening balances of the property plant and equipment. These assets were identified and property, plant and equipment restated prospectively through revaluation reserve. The supporting documentations for prior year balance relating to water expenditures incurred by the municipality were obtained and recalculated to support the prior year balance. The prior year balance was overstated and therefore water debtors account was adjusted.

The correction of the error(s) resulted in adjustments of the carrying values the following balances as indicated below:

Property, plant and equipment (Increase/Decrease)

Land and Buildings	144,013,257	-
Infrastructure assets	154,505,804	-
Community assets	(38,831,451)	-
Investment properties	51,782,072	-
Other assets	9,850,473	-
Trade and other payables		
Reduction of water debtors account	(8,178,932)	-

45. Comparative figures

The opening carrying values of property, plant and equipment have been reclassified during the year. The reclassification of unbundled and assets physically verified resulting in assets classified into different categories based on the verification results. The process also resulted in correction of prior year error as reflected in note 46 above.

The effects of the reclassifications are as follows:

Statement of financial position (Increase/Decrease)

Land	-	157,847,899
Buildings	-	37,270,294
Land and Buildings	175,925,867	-
Infrastructure assets	1,288,722,872	1,319,440,840
Community assets	65,167,636	6,118,103
Other assets	23,418,913	33,347,086
Heritage assets	156,294	-
Intangible assets	27,886	-
Investment properties	604,753	-

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

46. Statement of comparative and actual information

2012

	Original budget	2012 Budget adjustments (i.e. s28 and s31 of the M-FMA)	2011 Budget adjustments	2012 Final Budget	Actual outcome	2011 Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	36 698,798	34,654,199	32,048,094	34,654,199	34,836,428	32,068,480	(182,229)	101 %	95 %
Service charges	267,324,485	243,841,686	182,600,345	243,841,686	222,333,139	186,662,561	21,508,547	91 %	83 %
Investment revenue	966,663	912,808	2,516,979	16,913,028	1,035,379	2,868,367	15,877,649	6 %	107 %
Transfers recognised - operational	244,734,000	209,117,000	209,462,152	209,117,000	212,143,087	200,330,932	(3,026,087)	101 %	87 %
Other own revenue	35,119,039	33,143,535	56,228,112	17,143,315	67,377,001	39,670,646	(50,233,686)	393 %	192 %
Total revenue (excluding capital transfers and contributions)	584,842,985	521,669,228	436,455,679	521,669,228	537,725,034	461,301,206	(16,055,806)	103 %	92 %
Employee costs	(176,536,933)	(179,396,127)	(179,404,852)	(179,396,127)	(171,883,712)	174,607,218	(7,512,415)	96 %	97 %
Remuneration of councillors	(17,172,482)	(15,710,737)	(15,256,291)	(15,710,737)	(16,799,647)	16,137,982	1,088,910	107 %	98 %
Debt impairment	(8,762,270)	(10,800,000)	(10,800,000)	(10,800,000)	(46,500,702)	108,530,042	35,700,702	431 %	531 %
Depreciation and asset impairment	(60,000,000)	(62,000,000)	(112,000,000)	(62,000,000)	(177,515,003)	93,654,834	115,515,003	286 %	296 %
Finance charges	(663,486)	(629,494)	(1,800,000)	(629,494)	(7,531,535)	7,572,386	6,902,041	1,196 %	1,135 %
Materials and bulk purchases	(149,787,068)	(131,451,984)	(111,891,063)	(131,451,984)	(141,762,394)	109,661,547	10,310,410	108 %	95 %
Other expenditure	(111,552,088)	(218,665,611)	(138,343,165)	(218,665,611)	(180,868,981)	103,247,658	(37,796,630)	83 %	162 %
Total expenditure	(524,474,327)	(618,653,953)	(558,695,372)	(618,653,953)	(742,861,974)	613,411,667	124,208,021	120 %	142 %
Surplus/(Deficit)	60,368,658	(96,984,725)	(72,209,693)	(96,984,725)	(205,136,940)	(452,110,464)	108,152,215	212 %	(340)%

MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2012

46. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o. council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	67,400,000	55,562,000	46,197,000	55,562,000	42,124,781	46,197,000	13,437,219	76 %	62 %
Surplus (Deficit) after capital transfers and contributions	127,768,658	(41,422,725)	(26,012,693)	(41,422,725)	(163,012,159)	(106,913,481)	121,589,434	394 %	(128) %
Surplus/(Deficit) for the year	127,768,658	(41,422,725)	(26,012,693)	(41,422,725)	(163,012,159)	(106,913,481)	121,589,434	394 %	(128) %

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

46. Statement of comparative and actual information (continued)

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

46. Statement of comparative and actual information (continued)									
	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o. council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

MAKHADO LOCAL MUNICIPALITY
Appendix A
June 2012

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

Loan Number	Amount	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Current portion	Long term portion
		Rand	Rand	Rand	Rand	Rand	Rand

ANNUITY LOANS

INCA LOAN @11.47%
DBSA LOAN 1 @9.86%
DBSA LOAN 2 @5%

963/715001	12,656,600	5,443,435	-	1,615,354	3,828,081	1,807,413	2,020,668
963/715002	7,000,000	6,918,209	-	725,775	6,192,434	-	6,192,434
963/715003	21,110,000	2,316,530	-	283,771	2,032,759	-	2,032,759
		14,678,174	-	2,624,900	12,053,274	1,807,413	10,245,861

Total external loans

ANNUITY LOANS

		14,678,174	-	2,624,900	12,053,274	1,807,413	10,245,861
		14,678,174	-	2,624,900	12,053,274	1,807,413	10,245,861

MAKHADO LOCAL MUNICIPALITY

Appendix B

June 2012

Analysis of property, plant and equipment for the year ended 30 June 2012 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Correction of error Rand	Additions Rand	Disposals/Transfers Rand	Revaluations Rand	Underconstruction Rand	Closing Balance Rand	Opening Balance Rand	Correction of error Rand	Additions Rand	Disposals/Transfers Rand	Impairment loss Rand	Closing Balance Rand	Carrying Value Rand
Land and buildings														
Developed Land	115 711 200	95 336 849	-	-	-	-	211 048 049	-	-	-	-	-	-	211 048 049
Undeveloped Land	42 018 700	14 273 062	-	-	-	-	56 297 762	-	-	-	-	-	-	56 297 762
Dwellings	207 804	17 010 000	567 500	-	-	61 203	17 846 547	(41 588)	(15)	(574 321)	(315 800)	(177 743)	(733 667)	17 112 890
Landfill site	59 017	5 364 933	-	-	-	-	5 423 950	(4 792 782)	(72)	(1 184 698)	-	(1 395 727)	(5 108 582)	315 368
Non residential structure	25 746 516	9 777 326	-	-	-	123 418	35 641 260	(7 775 624)	2 104 810	(1 184 698)	-	(1 513 470)	(8 251 439)	27 389 821
	183 743 277	141 762 170	567 500	-	-	184 621	326 257 568	(7 817 412)	(2 687 987)	(2 074 819)	-	(1 513 470)	(14 093 688)	312 163 880
Infrastructure														
Electricity	892 542 861	3 120 539	438 676	-	-	28 524 304	924 636 480	(121 624 539)	(7 264 024)	(39 877 290)	-	(8 800 426)	(177 566 279)	747 070 201
Roads	702 305 365	177 894 615	23 468 833	(24 742 890)	-	9 550 746	888 474 659	(184 593 149)	109 448 717	(67 975 052)	2 962 362	(39 000 014)	(179 117 116)	709 357 553
	1 594 848 226	181 015 254	23 905 509	(24 742 890)	-	38 085 050	1 813 111 149	(306 177 688)	102 184 693	(107 852 342)	2 962 362	(47 800 440)	(356 683 395)	1 456 427 754
Other														
Machinery and Equipment	12 244 486	2 827 508	836 742	(1 524 026)	-	-	14 384 710	(7 757 156)	1 455 462	(1 649 127)	812 031	(83 218)	(7 222 008)	7 162 702
Furniture and Office Equipment	7 519 750	1 890 376	634 387	(1 741 310)	-	-	8 423 153	(1 335 490)	1 617 910	(864 704)	517 963	(187 669)	(1 717 980)	6 705 163
Computer Equipment	5 572 358	86 988	716 532	(1 961 364)	-	-	4 413 894	(2 414 617)	8 051	(942 342)	934 241	(85 626)	(2 390 293)	1 919 601
Transport Assets	18 246 378	1 678 228	-	(20 267 240)	-	-	19 924 806	(8 751 324)	1 598 653	(2 000 585)	-	(423)	(9 153 679)	10 771 127
Finance leased assets	57 156 365	-	-	(20 267 240)	-	-	36 889 125	(5 940 091)	-	(6 067 059)	-	-	(12 007 150)	24 881 975
	100 839 537	6 483 050	2 207 661	(25 494 560)	-	-	84 035 688	(26 198 678)	3 224 076	(11 523 817)	2 264 235	(386 396)	(33 601 120)	51 434 568

MAKHADO LOCAL MUNICIPALITY

Appendix B

June 2012

Analysis of property, plant and equipment for the year ended 30 June 2012 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Correction of error Rand	Additions Rand	Disposals/Transfers Rand	Revaluations Rand	Underconstruction Rand	Closing Balance Rand	Opening Balance Rand	Correction of error Rand	Additions Rand	Disposals/Transfer Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage Assets														
Heritage assets	520 979	-	-	-	-	-	520 979	(364 685)	-	(52 134)	-	-	(416 819)	104 160
	520 979	-	-	-	-	-	520 979	(364 685)	-	(52 134)	-	-	(416 819)	104 160
Investment properties														
Inv developed land	754 718	44 033 525	-	-	-	-	44 033 525	(149 965)	149 965	-	-	-	-	44 033 525
Inv dwellings	754 718	5 727 857	-	-	-	-	6 482 575	(149 965)	149 965	-	-	-	-	6 482 575
Inv non residential structures	754 718	1 975 362	-	-	-	-	1 975 362	(149 965)	149 965	-	-	-	-	1 975 362
	754 718	51 736 744	-	-	-	-	52 491 462	(149 965)	149 965	-	-	-	-	52 491 462
Community Assets														
Cemeteries	5 038 969	1 254 720	47 875	-	-	-	6 293 568	(412 352)	-	(209 933)	-	(24 655)	(646 940)	5 646 749
Cemeteries perimeter protection	136 104	-	2 296 762	-	-	-	183 876	(31 508)	(7)	(4 544)	-	(51 331)	(87 790)	56 189
Community centres	17 475 325	-	-	-	-	-	22 182 818	(5 833 408)	933 311	(582 803)	-	(10 521 899)	(11 560 919)	11 560 919
Libraries	1 183 262	-	-	-	-	-	2 410 731	(315 750)	-	(39 469)	-	(355 219)	(355 219)	1 212 373
Sport and recreational facilities	8 671 721	787 500	-	-	-	-	384 340	1 567 592	870 740	(344 353)	-	(19 119)	(3 117 769)	6 875 643
Township development	42 677 721	(42 677 721)	-	-	-	-	334 191	(3 022 037)	-	-	-	-	-	-
	75 383 092	(40 635 501)	2 344 637	-	-	-	3 129 262	(10 215 452)	1 804 044	(1 184 102)	-	(5 134 104)	(14 728 617)	25 491 873
	75 383 092	(40 635 501)	2 344 637	-	-	-	3 129 262	(10 215 452)	1 804 044	(1 184 102)	-	(5 134 104)	(14 728 617)	25 491 873
Total property plant and equipment	1 956 089 829	340 361 717	29 025 307	(50 237 450)	-	-	41 398 933	(350 923 883)	104 674 791	(122 687 214)	5 226 617	(54 814 950)	(418 524 639)	1 898 113 697
	1 956 089 829	340 361 717	29 025 307	(50 237 450)	-	-	41 398 933	(350 923 883)	104 674 791	(122 687 214)	5 226 617	(54 814 950)	(418 524 639)	1 898 113 697
Intangible assets														
Computers - software & programming	41 849	-	-	-	-	-	41 849	(13 962)	7	(6 980)	-	-	(20 935)	20 914
	41 849	-	-	-	-	-	41 849	(13 962)	7	(6 980)	-	-	(20 935)	20 914
Total	183 743 277	141 762 170	567 500	(24 742 890)	-	-	184 621	326 257 568	(7 817 412)	(2 074 819)	-	(1 513 470)	(14 093 688)	312 163 880
Land and buildings	1 594 848 226	181 015 254	23 905 509	(25 494 560)	-	-	38 085 050	1 813 111 149	(306 177 688)	(107 852 342)	2 962 382	(47 800 440)	(356 683 395)	1 456 427 754
Infrastructure	100 839 537	5 483 050	2 207 661	(25 494 560)	-	-	84 035 688	(26 198 678)	3 224 076	(11 523 817)	2 264 235	(366 936)	(32 601 120)	51 434 568
Other	520 979	-	-	-	-	-	520 979	(364 685)	-	(52 134)	-	(416 819)	(416 819)	104 160
Heritage Assets	754 718	51 736 744	-	-	-	-	52 491 462	(149 965)	149 965	-	-	-	-	52 491 462
Investment properties	75 383 092	(40 635 501)	2 344 637	-	-	-	3 129 262	(10 215 452)	1 804 044	(1 184 102)	-	(5 134 104)	(14 729 617)	25 491 873
Community Assets	41 849	-	-	-	-	-	41 849	(13 962)	7	(6 980)	-	-	(20 935)	20 914
	1 956 131 678	340 361 717	29 025 307	(50 237 450)	-	-	41 398 933	(350 923 883)	104 674 791	(122 687 214)	5 226 617	(54 814 950)	(418 524 639)	1 898 113 697

June 2012

Accumulated depreciation

[illegible]

MAKHADO LOCAL MUNICIPALITY
Appendix C
June 2012

Segmental analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation
Accumulated Depreciation

	Opening Balance Rand	Correction of error Rand	Additions Rand	WIP release Rand	Disposal Rand	Underconstruction assets Rand	Closing Balance Rand	Opening Balance Rand	Correction of error Rand	Additions Rand	Disposals/ Transfer Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Executive & Council/Mayor and Council	5/-544	-	-	-	(67,544)	-	-	(15,211)	-	(6,759)	21,970	-	-	-
Finance & Admin/Finance	83,155,787	56,541,767	2,255,534	-	(25,494,589)	-	116,458,489	(17,975,969)	1,629,106	(9,582,345)	2,283,355	(385,632)	(24,031,482)	92,427,007
Planning and Development/Economic Development/Plan	227,175,717	99,084,251	567,500	-	-	184,620	327,012,088	(7,817,411)	(2,541,697)	(2,074,820)	-	(1,513,470)	(13,947,398)	313,064,690
Comm. & Social/Libraries and archives	23,833,649	1,254,720	2,296,762	-	-	2,795,071	30,180,202	(6,593,418)	933,903	(836,749)	-	(5,114,984)	(11,611,248)	18,559,954
Public Safety/Police	18,246,578	1,678,227	-	-	-	-	19,924,805	(8,751,324)	1,598,653	(2,000,584)	(19,119)	(422)	(9,153,671)	10,771,128
Sport and Recreation	8,871,721	787,500	-	-	-	334,191	9,993,412	(3,622,037)	870,739	(347,352)	-	(39,000,014)	(179,117,117)	6,875,643
Road Transport/Roads	702,305,365	177,894,615	23,466,833	-	(24,742,890)	9,550,746	888,474,669	(184,553,149)	109,448,717	(67,975,052)	2,962,381	(8,800,429)	(177,566,278)	747,070,231
Electricity/Electricity Distribution	892,542,891	3,120,639	438,676	-	-	28,334,303	924,636,509	(121,624,538)	(7,284,024)	(39,877,290)	-	-	-	-
	1,956,199,252	340,361,719	29,025,305	-	(50,305,033)	41,398,931	2,316,680,174	(350,953,054)	104,675,397	(122,700,951)	5,248,587	(54,814,948)	(418,544,969)	1,898,135,205
Total														
	1,956,199,252	340,361,719	29,025,305	-	(50,305,033)	41,398,931	2,316,680,174	(350,953,054)	104,675,397	(122,700,951)	5,248,587	(54,814,948)	(418,544,969)	1,898,135,205
Municipality														
	1,956,199,252	340,361,719	29,025,305	-	(50,305,033)	41,398,931	2,316,680,174	(350,953,054)	104,675,397	(122,700,951)	5,248,587	(54,814,948)	(418,544,969)	1,898,135,205

MAKHADO LOCAL MUNICIPALITY

Appendix D

June 2012

Segmental Statement of Financial Performance for the year ended Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand	Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
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Municipality

268,207,139	230,582,447	37,624,692	Executive & Council/Mayor and Council	299,528,289	193,899,283	105,629,006
37,998,038	189,704,114	(151,706,076)	Finance & Admin/Finance	39,932,484	197,468,295	(157,535,811)
613,592	-	613,592	Planning and Development/Economic	333,363	-	333,363
14,275,670	9,513,861	4,761,809	Comm. & Social/Libraries and archives	13,523,151	14,596,143	(1,072,992)
-	110,358	(110,358)	Housing	-	6,721	(6,721)
7,269,798	30,191	7,239,607	Waste Water Management/Sewerage	7,707,816	38,825	7,668,991
1,201,348	5,705,356	(4,504,008)	Water/Water Distribution	-	2,037,235	(2,037,235)
178,007,060	115,699,880	62,307,180	Electricity /Electricity Distribution	215,096,064	146,043,513	69,052,551
1,065,966	37,089,527	(36,023,561)	Other/Air Transport	207,115	66,992,473	(66,785,358)
508,638,611	588,435,734	(79,797,123)		576,328,282	621,082,488	(44,754,206)
508,638,611	588,435,734	(79,797,123)	Municipality	576,328,282	621,082,488	(44,754,206)
508,638,611	588,435,734	(79,797,123)	Total	576,328,282	621,082,488	(44,754,206)

MAKHADO LOCAL MUNICIPALITY

Appendix E(1)

June 2012

Actual versus Budget (Revenue and Expenditure) for the year ended 30 June 2012

Current year	2012	Act. Bal.	Adjusted	Rand	Variance	Var	Explanation of Significant Variances greater than 10% versus Budget
Current year	2012	Adjusted	Rand	Rand			

Revenue	34,836,428	34,654,200	182,228	0.5			
Property rates	222,333,139	243,841,687	(21,508,548)	(8.8)			
Service charges	357,494	343,624	13,870	4.0			
Rental of facilities and equipment	1,703,644	1,969,551	(265,907)	(13.5)			More revenue than budgeted recognised from fines recognised during the year.
Fines	11,648,817	9,601,712	2,047,105	21.3			Undercollection of income from licences and permits than budgeted.
Licences and permits	254,267,868	264,679,000	(10,411,132)	(3.9)			
Government grants & subsidies	36,972,376	5,228,427	31,743,949	607.1			There were profit recognised from the sale of assets recognised in revaluation of assets and some creditors accounts written off during the year.
Other income	16,694,669	16,000,220	694,449	4.3			
Interest received - investment	1,035,379	912,808	122,571	13.4			
Expenses	579,849,814	577,231,229	2,618,585	0.5			

Personnel	(171,883,707)	(179,396,137)	7,512,430	(4.2)			
Remuneration of councillors	(16,799,648)	(15,710,737)	(1,088,911)	6.9			
Depreciation	(122,700,052)	(62,000,000)	(60,700,052)	97.9			More depreciation on assets recognised on revaluation of assets during the year.
Impairments	(54,814,951)	-	(54,814,951)	-			Assets were impaired during the financial year and no budget provision were made.
Finance costs	(7,531,535)	(629,494)	(6,902,041)	0.96.4			Increased finance costs from the finance leased amounts owed above 90 days resulting in huge
Debt impairment	(46,500,702)	(10,800,000)	(35,700,702)	330.6			The debtors aging analysis indicated substantial amount for provision for bad debts being recognised
Bulk purchases	(141,762,395)	(131,451,984)	(10,310,411)	7.8			The municipality had to cut on general expenditures during the year due to financial constraints.
General Expenses	(180,868,982)	(218,665,610)	37,796,628	(17.3)			
Net surplus/ (deficit) for the year	(742,861,972)	(618,653,962)	(124,208,010)	20.1			
	(163,012,158)	(41,422,733)	(121,589,425)	293.5			